

<p style="text-align: right;">Page 1</p> <p>1 UNITED STATES SECURITIES AND EXCHANGE COMMISSION</p> <p>2</p> <p>3 In the Matter of:)</p> <p>4) File No. C-08400-A</p> <p>5 CATALYST HEDGED FUTURES)</p> <p>6 STRATEGY FUND)</p> <p>7</p> <p>8 SUBJECT: 2016 03.01 Open House Call (SEC2)</p> <p>9 PAGES: 1 through 39</p> <p>10</p> <p>11</p> <p>12</p> <p>13</p> <p>14</p> <p>15</p> <p>16 AUDIO TRANSCRIPTION</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24 Diversified Reporting Services, Inc.</p> <p>25 (202) 467-9200</p>	<p style="text-align: right;">Page 3</p> <p>1 Ed Walczak is the Senior Portfolio Manager</p> <p>2 here at Catalyst funds and is responsible for the day-</p> <p>3 to-day management of the Hedged Futures and Hedged</p> <p>4 Commodities funds. Additionally, Ed has been the</p> <p>5 Portfolio Manager of the Hedged Futures predecessor</p> <p>6 fund, Harbor Assets, since its inception in 2005 until</p> <p>7 its conversion into a 40 Act mutual fund in September of</p> <p>8 2013.</p> <p>9 Mr. Walczak has a bachelor's degree in physics</p> <p>10 and economics from Middlebury college, and a Master's</p> <p>11 degree, a Master's of Business Administration from</p> <p>12 Harvard University's Graduate School of Business.</p> <p>13 Kimberly Rios is a portfolio manager on the</p> <p>14 funds and has received her bachelor's degree in finance</p> <p>15 and economics from the University of Arizona in 1994 and</p> <p>16 received her CFA designation in 2001. Additionally,</p> <p>17 Kimberly holds the CMT designation through the Market</p> <p>18 Technicians Association.</p> <p>19 As a reminder, all lines will be on mute</p> <p>20 during the overview. If you have any questions, please</p> <p>21 hit star then 5 at any time to place yourself in the</p> <p>22 queue. When we get to the Q&A portion of the call, I</p> <p>23 will announce you by your area code and prefix of your</p> <p>24 phone number. And you will hear your line being</p> <p>25 unmuted.</p>
<p style="text-align: right;">Page 2</p> <p>1 PROCEEDINGS</p> <p>2 2016 03.01 Open House Call (SEC2)</p> <p>3 MR. FREDERICK: Welcome everyone and thank you</p> <p>4 for attending our bi-weekly Catalyst Funds Portfolio</p> <p>5 Managers Open House conference call. Before I begin,</p> <p>6 I'd like to remind everyone today's call may include</p> <p>7 forward-looking statements. These statements represent</p> <p>8 the firm's belief regarding future events that, by their</p> <p>9 nature, are uncertain and outside of the firm's control.</p> <p>10 The firm's actual results and financial condition may</p> <p>11 differ, possibly materially, from what is indicated in</p> <p>12 those forward-looking statements.</p> <p>13 Please take a moment to review the fund's fact</p> <p>14 sheet and prospectus. These documents include some</p> <p>15 important risk considerations that investors should</p> <p>16 carefully consider, such as, like investment objectives,</p> <p>17 risks, charges and expenses should be reviewed prior to</p> <p>18 investing in any of the Catalyst funds. This and other</p> <p>19 information about the funds can be obtained by calling</p> <p>20 our internal sales desk at (646)827-2761 or at our</p> <p>21 website, www.CatalystMutualFunds.com; or by reaching out</p> <p>22 to your regional wholesaling representative.</p> <p>23 Today we have Ed Walczak and Kimberly Rios on</p> <p>24 the line, who are the managers of the Catalyst Hedged</p> <p>25 Futures and the Catalyst Hedged Commodities funds.</p>	<p style="text-align: right;">Page 4</p> <p>1 I will now hand the call over to Ed and</p> <p>2 Kimberly. It's all yours, guys.</p> <p>3 MR. WALCZAK: Great. And I'm assuming our MC</p> <p>4 today is Ed Frederick. I'm not sure. I didn't</p> <p>5 recognize the voice. I didn't hear you introduce</p> <p>6 yourself. Is that right?</p> <p>7 MR. FREDERICK: Yeah, that's me.</p> <p>8 MR. WALCZAK: Okay, great. Well, and I have</p> <p>9 to start off by saying I've always been told that two</p> <p>10 Eds are better than one. So with that, I'll get going</p> <p>11 to a more -- a more serious update on the two funds, as</p> <p>12 I do every other week.</p> <p>13 So let me start again with the S&P fund, and</p> <p>14 give you a quick overview of its positioning and some</p> <p>15 commentary on the recent performance. And then we'll</p> <p>16 move on and do the same on the commodity fund.</p> <p>17 And again, most importantly, we want to leave</p> <p>18 plenty of time for any questions you might have about</p> <p>19 specific topics. So as these calls move on hopefully</p> <p>20 I'll get more and more concise in my commentary, so</p> <p>21 please bring questions when you're on the call so that I</p> <p>22 can address very specific topic instead of guessing and</p> <p>23 boring a large part of the audience with a broader</p> <p>24 overview.</p> <p>25 So, the S&P fund as you recall from maybe from</p>

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1 past calls, we've had a declining market so far in 2016,
 2 declining S&P, declining equity markets, with a very
 3 modest, moderate level of increased volatility. And
 4 I've commented on that in the past as well. While the
 5 volatility may feel perhaps larger than it is I would
 6 encourage all of you when it feels volatile or if you
 7 perhaps get questions from clients or customers about
 8 volatility, please translate that into an analytical
 9 look at what's going on. For us what matters is
 10 volatility that's built into options pricing. That's
 11 what we attempt to earn a return on in conditions like
 12 this.

13 Common measures, as I'm sure you're all well
 14 aware, are things like the VIX. And I had mentioned, I
 15 think, at some point in the past couple calls a metric
 16 called the VXV. You can pull that up the same as you
 17 can if you want to look at another volatility metric;
 18 that's a 90 day measure of options volatility. 90 days
 19 to expiration, as opposed to the VIX, which is 30 days.

20 You can look at metrics. But my point is, I
 21 encourage you to look analytically at metrics. Don't
 22 depend on price action. We try to insulate ourselves
 23 from price action. Don't depend on perception or gut
 24 feel about volatility. Look at those metrics. Look at
 25 them historically. I think then my comments might make

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1 a little bit more sense when I tell you that we've had a
 2 very, very modest level of volatility so far this year,
 3 even though it may feel as though it's more significant
 4 from a subjective point of view.

5 So, with that said, during the past two months
 6 we have basically within the fund concentrated largely
 7 on our volatility positions below the market and again
 8 we've done that because we have gotten enough elevation
 9 ability to flatten the term structure volatility. That
 10 means that things like the 30 day measure VIX have come
 11 to an equal level with things like that 90 day measure I
 12 talked about, the VXV. And when that happens, that's
 13 our basic signal to go and put on volatility exposure in
 14 the fund.

15 So we've been doing that, modestly profitable
 16 for us. The fund is up 120 basis points I guess year-
 17 to-date roughly. It's been modestly profitable
 18 commensurate with the modest level of volatility
 19 expansion that we've seen. So we have quite a few of
 20 those positions on. Interestingly enough, I have also
 21 mentioned in the past that when that curve reverts to a
 22 contango, meaning the VIX, the volatility starts to come
 23 out, the VIX gets cheap, then that's when that signal
 24 turns us and begins to focus our attention on upside
 25 price capture, which we do with call options above the

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1 market.

2 As of the last call, we were on the cusp --
 3 you may recall I made some comments that we were on the
 4 cusp of adding those types of positions.

5 The advance over the last couple of weeks has
 6 put volatility into a position where we were looking at
 7 upside price capture. And perhaps more importantly,
 8 it's passed some of the gateways that use from a risk
 9 standpoint to avoid getting run over so to speak when we
 10 put on this upside exposure.

11 A brief recap of how we do that: we put on
 12 call spreads which don't carry downside risk. They
 13 carry upside opportunity but they also carry upside
 14 risk. And said another way, when we put these positions
 15 on, the risk in the position is not that the market goes
 16 down or not even that it goes sideways. The risk is
 17 that it goes up too far. The positions will make money
 18 if the market advances at moderate rate. They'll lose
 19 money if the market advances at a very rapid rate both
 20 in time and in price.

21 So as a result, even when volatility
 22 conditions suggest that we enter these types of trades,
 23 we don't put them on until we are satisfied that the
 24 market is no longer severely undersold and is less
 25 likely to see a very, very rapid rise of a very short

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1 period of time.

2 So over the last couple weeks, all of those
 3 conditions, the primary volatility conditions as well as
 4 some of the relief of severe oversold conditions have,
 5 according to our strategy have been met, and we have
 6 begun to put on upside price capture conditions.

7 We've done that in June and in several
 8 different expirations in July. And to give you a sense
 9 for where we're placing those, we have long options
 10 exposure roughly 2100 on the S&P. Our risk kicks in
 11 above 2150. Our profit range is really in the 2100 to
 12 2175 neighborhood, currently out in June and July
 13 expiration periods. Once again, I'll recap how those
 14 positions work. A day like today they will lose money
 15 on paper because the market's up pretty strongly today.
 16 And what we would love to have is to see the market at
 17 2150, for example, in July. If it goes to 2150 next
 18 week, those positions will definitely show an unrealized
 19 loss.

20 But there's several ways that the market can
 21 get to 2150 in July. It can go to 2150 next week and go
 22 flat until July. Or it can go flat until a week before
 23 expiration and go to 2150. Obviously those are extreme
 24 cases. Or it can go there in a nice grinding gentle
 25 fashion. That's the best case scenario for us, but

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1 we'll take it either way. Just be aware that when --
2 one of the things that causes us some stress is when you
3 get a very rapid rise in a short period of time.

4 Ideally it's only short term for us, but that
5 can cause some stress on these positions, even though
6 they are designed for upside capture. Again, just a
7 recap of how our strategy works.

8 So we have begun doing that. They're small
9 positions still above the market. But we're building
10 them on a daily basis now, volatility conditions and
11 price conditions are met and we are building them on a
12 daily basis. We are at the same time maintaining
13 volatility positions below the market, and this
14 represents a challenge for us, because in conditions
15 like this our volatility positions as they are designed,
16 they are essentially neutral to price, so the value of
17 those positions is not affected generally speaking by
18 price movements, even a large movement like today.

19 They are also at least neutral to time, which
20 means that if the markets sit still, those positions
21 will be neutral to the passage of time, which is
22 important for an options position. But they are, as
23 they are designed, they are long volatility. And what
24 that means on a day like today when volatility declines,
25 we do have some positions on that will lose money due to

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1 that volatility decline. And that represents a give back
2 of unrealized gains, gains we haven't taken to the bank
3 and closed out in those positions.

4 So, so that's the dynamic today is we're doing
5 two things. We're adding to our upside capture
6 positions, because again those volatility and price
7 conditions are right according to our strategy to do
8 that. But at the same time, we are attempting to
9 protect the value in our volatility positions below the
10 market. Meaning they are going to lose value on the
11 basis of volatility. They are just declining. But
12 there are adjustments we can make and will make to try
13 and preserve the value in those positions and to
14 preserve the opportunity to make money should the market
15 roll over from here and decline and should we get
16 another volatility episode.

17 By the way, today the VIX has gone fairly
18 significantly below 20. Again, recall that 20 is our
19 line in the sand. We like VIX above 20 (inaudible) not
20 so much. And once again, we've seen a period repetitive
21 over the past four or five years where VIX above 20
22 struggles to last longer than 7 or 8 weeks and once
23 again we're below 20.

24 So we did manage to capture some gains during
25 the most recent period and we're actively trying to

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1 maintain the value in those positions and the
2 opportunity.

3 We have volatility positions by the way that
4 also extend out into June, currently into June
5 expirations. So that's how the S&P fund is positioned
6 currently. We are beginning to build upside exposure.
7 That upside exposure does carry some risk, especially on
8 an extreme upside day today, but again, that's why I
9 would encourage you not to pay too much attention to
10 daily movements in the fund's value but rather over a
11 longer period of time.

12 We also have a fairly large complement of
13 positions, volatility positions underneath the market.
14 They have accounted for the fund's positive return year-
15 to-date. And we are currently adjusting those positions
16 to maintain their value and to also maintain the
17 opportunity should we return to a period of elevated
18 volatility, VIX above 20. That's pretty much the state
19 of things with the S&P fund. Let me move on quickly to
20 the commodity fund.

21 A reminder, in the commodity fund we trade
22 corn, options on corn, gold and oil. In the -- over the
23 past couple of weeks we've seen oil rebound off some
24 generational lows at least to a small extent. We've
25 seen gold make a parabolic upside move, and it's

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1 maintained a lot of that value. And we've seen corn, as
2 I've described in the past, basically drift lower.
3 There are ample corn supplies. The U.S. crop is not in
4 the ground yet. No reason for anyone to expect
5 volatility in the corn market.

6 So once again, starting with corn, we're
7 pretty much sitting on our hands. We have a couple of
8 small positions on. But we are anticipating growing
9 season volatility to give us some opportunity there.
10 Right now corn is not making a material impact on the
11 commodity funds portfolio or asset value.

12 In the crude oil market, we have a past,
13 another expiration cycle, and the expiration cycles
14 offer us the opportunity to adjust positions. I
15 mentioned in the past that the historic decline in oil
16 put some stress on the fund's NAV. We've been able to
17 adjust those positions where we have now limited our
18 risk in a way that we're much more comfortable with
19 below the market. We still have some risk but we have
20 our risk capped at somewhere in the neighborhood of 100
21 to 150 basis points of fund NAV down to \$25 a barrel on
22 oil.

23 And is fact, as is not uncommon with our
24 options positions, \$25 a barrel on oil would cause us
25 again some limited additional pain, but actually below

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1 \$25 you hear sometimes in the press about \$20 oil, \$15
2 oil, \$10 oil back in the '80s. Below \$25 we would
3 actually start to make money on our existing positions.
4 Not our intent, but that's an example of how we've
5 capped our risk in the oil market.

6 We are still, however, based on the existing
7 position, we are still -- have a net long exposure to
8 oil. So those of you who are interested in the fund and
9 have capital in the fund, you'll note that generally
10 speaking a rise in the price of oil will be positive for
11 the fund on a daily basis. But we do have downside risk
12 captured. We'll continue to adjust those positions and
13 hope to capture ultimately a positive return in the oil
14 marketplace.

15 The third market I wanted to talk about as
16 well is gold. So much like a dramatic decline in oil
17 turned our exposure -- again we are a neutral fund in
18 the commodities space just as we are in the S&P.
19 However, when we put on option structures, and typically
20 they're designed to either capture gradual price
21 movement or changes in volatility, again similar to the
22 S&P fund -- when we put these positions on, we put them
23 on from a neutral perspective, but market movement, in
24 particular dramatic market movement, can push the
25 exposure of these positions either to a long or short

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1 directional bias in these markets.

2 And as I described in oil, that has pushed us
3 into a long exposure in oil; however, one in which we
4 have our downside risk now very comfortably hedged.

5 Similarly, the dramatic rise in gold. It's up
6 roughly 20 percent this year. That dramatic rise has
7 pushed us into a net short position in the gold market.

8 So for those of you again following on a daily basis
9 looking at these markets, a decline in gold prices is
10 currently a positive for the fund. However, our gold
11 positions aren't that designed to capture upside
12 movement in gold. We're in that same scenario that
13 occasionally happens in the S&Ps, and that is gold has
14 simply gone a little too far a little too fast for how
15 we position those option structures.

16 Currently, however, upside in gold is good for
17 us. Currently downside would help on a daily basis but
18 a flat gold market over the next couple of weeks would
19 be very profitable for the fund. In fact we took a
20 decent amount of profits to the bank in the recent gold
21 expiration. The most recent expiration was last week.
22 Currently would love to see gold flatten for the next
23 month or so, and a decline would help in the short term,
24 but our maximum profit is actually right where gold is
25 currently.

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1 So again, that's how the commodity fund is
2 positioned right now, pretty much neutral and no
3 material positions on in corn. Fairly sizeable
4 positions in oil and in gold. And just basis market
5 movements, essentially having a long exposure but hedged
6 to oil, and a short exposure but hedged to gold, both of
7 which, both positions as is typical for us, will
8 actually make money if those markets stay flat. In the
9 very short term, gold down oil up is the best scenario.

10 So that's how the two funds are positioned,
11 and that's a little bit about what has occurred in the
12 recent couple of weeks, what's going on under the hood.
13 Let me open the call up for any questions that you may
14 have out there.

15 MR. FREDERICK: Thank you for that, Ed. As a
16 reminder, folks, if you guys have a question to ask,
17 please press star then 5, and I will unmute your line.
18 It doesn't look like we have anything coming up here.
19 Once again folks, star 5 will open up your line for a
20 question. All right. And it looks like we have our
21 first question. It's coming from area code (801)748.
22 You're unmuted.

23 PARTICIPANT: Hello, yes. Thanks for doing
24 these calls. I think they're fantastic. I've learned a
25 lot about the strategies from you, so I appreciate that.

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1 My question would be, can you go back to the
2 backwardation and contango and kind of talk about what
3 that means for you and the fund, and again, what you're
4 looking (inaudible).

5 MR. WALCZAK: Sure. So backwardation and
6 contango, when we talk about them refer, really in both
7 funds, but it's -- I'll give you an explanation on the
8 S&P side since it's a single market. The concept of
9 backwardation and contango refer to the term structure
10 of volatility. And the term structure of volatility
11 again, the best way to understand it if you're not an
12 options guys is, it's very similar to a yield curve in
13 fixed income. So when you look at a yield curve you say
14 look, what's my one year treasury yielding and that's
15 different and usually different than the two year
16 treasury or the five year note or the 10 year note et
17 cetera. So you can plot a yield curve which reflects
18 how much the percent yield that you'll gain depending on
19 the duration of the treasury security for example that
20 you choose.

21 So again, in options the key metric -- in
22 fixed income the key metric is what is the rate, what is
23 the interest rate on a particular instrument. In options
24 the key metric is really all about volatility. So we
25 look at a very similar curve called the term structure

<p style="text-align: right;">Page 17</p> <p>1 of volatility only we look at it in the following way. 2 We say, let's take the group of at the money options in 3 the S&P that have 30 days to expiration and what sort of 4 volatility assumption is built into their price? And 5 guess what, that's called the VIX. That's the 6 definition of the VIX. It's what volatility on average 7 is built into at the money S&P 500 options with 30 days 8 to expiration. 9 So if the VIX is at 15 we can now look and 10 say, well let's calculate that same number for options 11 with 60 days instead of 30 days to expiration, and it's 12 going to be a different number, just like you would get 13 a different yield of a fixed income of different 14 duration. So the 60 day -- and the typical condition of 15 that term structure is in contango. Contango means the 16 VIX, which is the short part of the curve, 30 days to 17 expiration options, what's the VIX, let's call it 15. 18 60 day to expiration options in a normal contango 19 situation might be at 16 volatility. And 90 day options 20 might be at 17 and 120 days might be at 18 and so forth. 21 So much like a normal yield curve, you can get more 22 volatility as you go out further in duration of options 23 or in time to expiration for your options. 24 So when that curve is in contango -- so in all 25 our strategies, because volatility is important in</p>	<p style="text-align: right;">Page 19</p> <p>1 leading us to a call option structure. Or maybe said a 2 better way, it's leading us away from our put option 3 structures. And here's why that is. The other condition 4 of, that you asked about was backwardation. Well, that's 5 the opposite of contango. Backwardation simply means 6 that now volatilities built into options are more 7 expensive in the front end. And in that scenario you 8 might see a VIX of 25 and if you go out 30 days you see 9 24 and if you go out to 90 days you see 23 and so forth. 10 So it's backward, and hence the name. The 11 front end becomes expensive and the back end becomes 12 cheap. 13 So when we put on volatility structures we 14 like to sell nearer term. We generally don't go as 15 close as 30 days but we sell closer to expiration put 16 options and we buy longer to expiration put options. 17 And so if you think about that curve, we don't want to 18 be selling a cheap volatility and buying an expensive 19 volatility. That's what we would do if the curve were 20 in contango. So we wait until it's in backwardation and 21 in fact what we do is we wait until it's flat or nearly 22 flat so that we can buy and sell at least at parity on 23 our volatilities. And that's what pushes us -- that's 24 the dividing line between doing a call option structure 25 or a put option structure is whether that curve is in</p>
<p style="text-align: right;">Page 18</p> <p>1 options pricing and because the richer the options price 2 the better what we do works no matter what it is, 3 whether it's our call strategies or our put strategies - 4 - so we are looking for more volatility. So when 5 volatility is in contango, that means volatility is very 6 cheap, nearer to expiration and more expensive further 7 from expiration. So we go out along that curve and we 8 choose -- we go to the highest volatility we can get on 9 that curve under two conditions. One is liquidity, the 10 options have to trade, not every month on the curve has 11 actual tradable options, 12 And secondarily, you usually find a flat spot 13 on the curve, and again similar to a fixed income 14 instrument, you can go out a certain place and then 15 after that you're not getting as much additional yield, 16 so you don't want to go out any further. 17 With options, we find a place where we're not 18 getting much if any additional volatility, we stop 19 there, and that's where we place our trades. That's a 20 contango situation, and that's normally a situation 21 where the market is flat or higher. And so we're 22 putting on call options structures to capture upside 23 price appreciation in that scenario, again, not because 24 we're predicting price direction but because the 25 volatility, the contango of the volatility curve is</p>	<p style="text-align: right;">Page 20</p> <p>1 contango or backwardation or really whether it is in 2 contango or it has flattened potentially on its way to 3 backwardation. 4 So that's the first fork in the road for us as 5 we do our analytics, whether we're in calls or puts, 6 backwardation or a flat volatility curve leads to put 7 structures because we are buying and selling a long 8 curve and we want to have at least parity in order to do 9 that. And call option structures above the market we do 10 when it's in contango because we can go out far enough 11 to get the volatility we're looking for. And because 12 those volatility conditions are normally present in a 13 rising market, that both those characteristics are 14 driving us into call option structures. So let me know 15 if that answers your question or if you have a follow 16 up. 17 PARTICIPANT: No, that's very good. So in the 18 article I was reading most recently on this, there was 19 nice Yahoo! Finance article talking about it. It said 20 that the latest backwardation stint talking about 21 February 16th lasted 30 days. So how long is a curve 22 usually or the volatility term structure usually in 23 backwardation, that would allow you to put on those 24 types of positions in the put side versus the contango? 25 MR. WALCZAK: Well, the actual question to ask</p>

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1 -- well the short answer to your question is, there's a
2 lot of variability. I think I've commented on the fact
3 that we haven't seen extended periods of Vol, and really
4 what that means, when you get an elevated volatility,
5 then that's when that curve stays either flat or in
6 backwardation for a long period of time.
7 What we've seen more frequently over the last
8 three or four or five years is a spike in the VIX which
9 everyone sees because the VIX is that index that gets
10 quoted everywhere. So a spike in the front end which
11 flattens the curve or goes into backwardation and then a
12 fairly immediate return to prior, relatively low levels.
13 So that's really a metric that talks about, all right,
14 so the curve stayed in backwardation or flat or
15 somewhere close only for a fairly short period of time,
16 and as you mentioned, February 16th. So that probably
17 means 4 to 6 weeks is the period of time where we got
18 some backwardation. We got about 8 weeks of VIX above
19 20. So if you look historically it's not unusual. In
20 2008 and maybe that's also an unusual example, but in
21 2008 the curve stayed in backwardation for six to 8
22 months of that year.
23 Even in 2011, the curve was mostly in
24 backwardation for in excess of -- or at least flat. By
25 the way in our definition if the curve is flat or even

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1 close, meaning there's a relatively small contango in
2 place, we are able to go in and do something. So it
3 doesn't always have to be strictly in backwardation, it
4 just has to be close. At least flat. And when I talk
5 about that, we measure those things. So when I say
6 close to being flat, we have a metric that measures the
7 slope. And while the slope is still negative, meaning
8 the front end is still a little cheaper, again as long
9 as that slope is small we consider it.
10 So all that being said, there are periods of
11 time in history, 2011 again is an example I use as a
12 normal period of volatility as opposed to 2008 which was
13 the end of the world type of scenario. 2011 you had
14 backwardation for most of the back half of the year.
15 But recently we haven't had one that has even lasted two
16 months. So that becomes difficult. And it's not so
17 difficult -- on day one of backwardation or flatness or
18 a spike in VIX we begin to enter a position. The
19 question is, can we put on enough positions fast enough
20 before that episode ends to actually have these
21 positions be profitable for us? And that's the -- the
22 answer to that question is, it takes about 6 to 12 weeks
23 is the optimum for us.
24 So one of the things we actually look at is a
25 90 day rolling average of 90 calendar day rolling

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1 average of the VIX. And it's very easy to see. If you
2 run into one of those on a charting program, just chart
3 the VIX. Running every day moving average on it.
4 You'll see that back in 2008 that 90 day average was up
5 in the 60s and that's a moving average not a spike. And
6 even in 2011, that moving average was well above 30 for
7 a fairly decent period of time.
8 And since 2011 we've struggled to have that
9 moving average even come above 20. And again recently,
10 we recently had it poke just above 20 and it's heading
11 back down as we speak. So the short answer is there's
12 no set time frame. Over the last three or four years,
13 it's been difficult to profit from volatility because we
14 haven't had episodes that lasted very long. But when
15 they do we put on positions.
16 This year is a great example. As I said, the
17 fund has been able to make about 100, 120 basis points
18 from volatility trades, even though we've had a pretty
19 modest volatility spike and it only lasted 2 months.
20 But you get a higher spike, it lasts longer, we can make
21 more money. We take whatever the market gives us.
22 PARTICIPANT: Thanks. I appreciate that.
23 MR. WALCZAK: Sure.
24 MR. FREDERICK: Thanks for that question.
25 Once again, folks, star 5 will, you know, free up your

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1 line to ask Ed a question, star 5. It looks like we
2 don't have anything in the queue just yet. All right.
3 So in lieu of this, I'm going to call last call on
4 questions, folks. We'll wait a few moments. Star 5
5 will -- oh, I've got a couple popping up now. All
6 right. So we've got area code (858)756.
7 PARTICIPANT: Hi. Craig here. The -- you
8 know, in looking at your correlations, it's -- I mean,
9 it's pretty fascinating, in that of course you're not at
10 all correlated to normal managed futures given the
11 strategy nor the equity markets. So what -- what type
12 of benchmark do you use to -- and is it a blended
13 benchmark? How do you monitor your performance? Did
14 you look at it --
15 MR. WALCZAK: Sure.
16 PARTICIPANT: -- at different periods of VIX
17 and depending upon whether it's low, medium, high VIX,
18 VIX below 20, 20 to 30, 30 plus and return expectations
19 in those environments?
20 MR. WALCZAK: Sure. We've recently begun to
21 do some correlation analysis on the VIX and we certainly
22 have a relationship with volatility. In other words,
23 qualitatively and by the eyeball test you can look at
24 VIX relative to fund monthly returns for example and see
25 that we've outperformed during periods of high

<p style="text-align: right;">Page 25</p> <p>1 volatility relative to periods of low volatility.</p> <p>2 In terms of a benchmark, we do use the S&P as</p> <p>3 a benchmark. Again, depends on what you really want to</p> <p>4 use as a benchmark or use a benchmark for. We're an</p> <p>5 absolute return fund and we -- the S&P fund is -- uses</p> <p>6 the S&P as its underlying market. We understand that</p> <p>7 most of our shareholders are using the fund as a</p> <p>8 complement as a part of an equity portfolio. So for</p> <p>9 those reasons we feel as though the S&P 500 as a price</p> <p>10 benchmark is the most appropriate one to use. I'm not</p> <p>11 sure if you use the benchmark as a method of saying is</p> <p>12 this fund doing well or not, then correlating it to the</p> <p>13 VIX from that standpoint is -- I'm not sure how</p> <p>14 meaningful it is, because you really want to understand</p> <p>15 how your investment is growing if you want to make a</p> <p>16 judgement on is this fund doing well or not.</p> <p>17 So as an absolute return fund and as one that</p> <p>18 is using options in the equity space and one whose</p> <p>19 shareholders use us as an equity complement or</p> <p>20 substitute, we like to look at the S&P. And so in</p> <p>21 particular from our standpoint we want to -- our goal is</p> <p>22 to match the S&P's performance in up years and deliver</p> <p>23 positive returns when the S&P enters a bear market or a</p> <p>24 correction.</p> <p>25 So that's the qualitative benchmark. And the</p>	<p style="text-align: right;">Page 27</p> <p>1 or time or volatility will affect that options price.</p> <p>2 So what we do is we use volatility analytics</p> <p>3 to enter, as I described, put or call positions. We're</p> <p>4 in different expiration months at multiple different</p> <p>5 strikes. From a risk perspective, we're not looking at</p> <p>6 individual positions, whether they're profitable, how</p> <p>7 they were entered, where they were entered. We look at</p> <p>8 the entire portfolio. So we aggregate all of these</p> <p>9 positions in our options pricing models and then we</p> <p>10 stress the portfolios for what I would call risk events.</p> <p>11 And typically the risk events are an expansion or rapid</p> <p>12 change let me say, but typically the expansion in</p> <p>13 volatility or a rapid price movement.</p> <p>14 So we're looking at model of the portfolio. We</p> <p>15 don't look at for example the delta of the portfolio.</p> <p>16 Because again that's one of those back of the envelope</p> <p>17 things that can be very, very misleading. Delta is not</p> <p>18 the most important factor in an options price.</p> <p>19 So we look at an options model which takes</p> <p>20 into account everything that affects options pricing.</p> <p>21 Delta, gamma, theta, vega, rho. And I could go on with</p> <p>22 more Greeks that no one has ever heard of but the model</p> <p>23 has. So we model the portfolio. We stress price,</p> <p>24 meaning we look in the model and we draw a graph of the</p> <p>25 portfolio value and what would happen to the portfolio</p>
<p style="text-align: right;">Page 26</p> <p>1 actual benchmark we do use is the S&P 500 index, in</p> <p>2 terms of comparing returns.</p> <p>3 PARTICIPANT: And for risk management, and</p> <p>4 downside protection with thresholds, I think I looked at</p> <p>5 one of your reports. And your, your maximum loss was I</p> <p>6 think 10 percent or so. I mean, so do you have specific</p> <p>7 risk metrics where you'll ease up in certain</p> <p>8 environments and manage to some volatility threshold</p> <p>9 with upside downside capture ratios, or?</p> <p>10 MR. WALCZAK: Sure. What we do are risk</p> <p>11 management protocols. And by the way, these were -- we</p> <p>12 did not have sophisticated risk management protocols in</p> <p>13 place early in the life of the fund. We actually, the</p> <p>14 structure we use today was essentially put into place in</p> <p>15 the middle of 2007, but -- so it's been there for a</p> <p>16 majority of the life of the fund. And let me describe a</p> <p>17 little bit about what we do.</p> <p>18 We collect -- I've described the different</p> <p>19 options strategies we use. And options are non-linear</p> <p>20 instruments. In other words, try as you might, you</p> <p>21 cannot look at an options value and on the back of an</p> <p>22 envelope describe what's going to happen to it. A lot of</p> <p>23 people look at options expiration and you can do some</p> <p>24 things there, but between now and expiration without a</p> <p>25 good model you have no hope of understanding how price</p>	<p style="text-align: right;">Page 28</p> <p>1 if the market is up 5 percent or 10 percent. We look to</p> <p>2 the downside, what would happen to the portfolio if the</p> <p>3 S&P is down 5 percent, 10 percent or 15 percent. And</p> <p>4 then in turn we can also at those price stress points</p> <p>5 say all right, now what will happen if at those price</p> <p>6 points, volatility declines by 5 percent, increases by</p> <p>7 10 percent, increases by 15 percent.</p> <p>8 So we have a collection of stress points. And</p> <p>9 what we are looking for at each of those stress points</p> <p>10 is an 8 percent draw down in the value of the fund.</p> <p>11 Again, this does not mean there's a hard stop</p> <p>12 or a guarantee of an 8 percent loss containment. But</p> <p>13 what we're doing is we're actually looking in the</p> <p>14 future. We look across at least five different time</p> <p>15 frames as well as these different price and volatility</p> <p>16 conditions, and we're looking for a set of conditions</p> <p>17 that could possibly cause the fund to lose more than 8</p> <p>18 percent.</p> <p>19 Why 8 percent? 8 percent is the threshold</p> <p>20 rate of return that we believe is reasonably possible</p> <p>21 over the course of a year. So our risk management</p> <p>22 philosophy is that we don't want any draw down in the</p> <p>23 fund to put a shareholder under water for longer than a</p> <p>24 year. So that if you entered the fund at exactly the</p> <p>25 wrong time and experienced an 8 percent draw down in the</p>

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1 fund, our goal would be to recover that money within a
 2 year. And so that's why we use an 8 percent number.
 3 And over -- that's at least the genesis of the
 4 8 percent number. Over time -- again, in any risk
 5 management protocol you can -- the goal is to be in the
 6 right place on the risk-return tradeoff. Meaning if you
 7 set your risk control too tight -- if I said we are not
 8 going to tolerate more than a 1 percent draw down, well
 9 it would be very difficult to make any money.

10 (Inaudible) said, look, we'll take a 20
 11 percent draw down, well that's beyond the risk tolerance
 12 of most investors and it's beyond my personal risk
 13 tolerance in running the fund. So the 8 percent number
 14 is one which we originally set in order to recover draw
 15 downs within a year, and over time has proven to be, to
 16 allow us enough room to still earn satisfactory returns
 17 and stick to our philosophy of maintaining a recovery
 18 time of a year or less.

19 So, that's what we do. We stress the portfolio
 20 across a number of different dimensions. We look for
 21 where, what conditions might cause a greater than 8
 22 percent draw down. We then model hedging techniques,
 23 meaning the purchase and sale of additional options
 24 contracts, either ones we already hold -- taking
 25 positions off is one thing we model, adding additional

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1 positions as hedges is another thing that we model and
 2 that's our most common adjustment. We'll model
 3 adjustments; we'll chose the most economical and
 4 effective adjustment to bring us back in bounds so that
 5 we can no longer find a stress point that will result in
 6 greater than an 8 percent draw down.

7 So using these tactics, we have limited -- our
 8 largest draw down since these were put in place in '07
 9 has been about 8 and a half percent, so we've been
 10 effective with them, and that's how we deal with risk in
 11 the fund.

12 PARTICIPANT: Very, very helpful. And that,
 13 in terms of tax treatment all 60 -- is this all 60-40,
 14 the way it passes through?

15 MR. WALCZAK: It is. It's a -- all the
 16 options we trade are classified as 1256 contracts which
 17 again, just by rule independent of holding period,
 18 suggest that gains and losses are treated 60 percent
 19 long term, 40 percent short term.

20 PARTICIPANT: Okay. Very helpful. And do you
 21 have additional performance attribution information
 22 available that does break things out between you know,
 23 with an overlay of VIX and what would help, what hurt?

24 MR. WALCZAK: Whatever we've got, in terms of
 25 that, those type of approved materials, you'd have to go

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1 through one of our wholesalers or the internal desk. Ed
 2 might be able to refer you to the right guy.

3 PARTICIPANT: Okay. Very good. Thank you.

4 MR. FREDERICK: All right. Thank you for that
 5 question. Next up we've got area code (617)335.

6 PARTICIPANT: Hey, Ed, I want to congratulate
 7 you on your performance. Can you just go back to 2013,
 8 where you were down 3? I'd like to know exactly what
 9 your spread contracts looked like. And can you just
 10 summarize that whole calendar year and give us a picture
 11 of why you did what you did?

12 MR. WALCZAK: Sure. So during that year if
 13 you recall the market up 30 percent, so a fairly
 14 parabolic move even on an annual basis within; within
 15 the year there were two or three occasions where the
 16 market was up 10 to 12 percent in 4 to 6 weeks. And so
 17 those are the type of conditions I mentioned early in my
 18 discussion. And as I've described the strategy in the
 19 past, when we put on upside capture, first of all the
 20 volatility conditions were low, term structure in
 21 contango that entire year. So we were basically doing
 22 nothing but call option structures above the market.

23 Those structures have the opportunity to
 24 capture a return in a normal rising market and we like
 25 to define normal as 8, 10, 12 -- even as high as 14 or

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1 15 percent of an annual up move in the S&P would be
 2 considered you know, normal within the bounds of what we
 3 do in our strategy. Above that, particularly short run
 4 moves that go dramatically higher, our call option
 5 strategies don't take downside risk. They do take
 6 upside risk, because we have more short calls above the
 7 market than we do long calls below them. So we have to
 8 manage that risk.

9 So 2013 was a year in which at least two or
 10 three times we took, we had to take steps to take
 11 positions off at a loss in order to manage that risk.
 12 And in general the market continued to run through the
 13 top end of our profit range on these positions.

14 So, interesting enough, we did take a fair
 15 amount of learning from 2013 and also from the fourth
 16 quarter of 2014. So we think we've been able to modify
 17 some of the ways in which we enter and manage those
 18 upside positions. The overall risk profile remains the
 19 same. It will not do well in a parabolic up market.

20 I would like to however think that we could
 21 deliver at least a positive return even in a year like
 22 2013. We are an absolute return fund. I'm personally
 23 not happy to say look, when you get 2013 you just have
 24 to take your lumps. That's just not what we do. So we
 25 continue to look for improvement in how we place those

<p style="text-align: right;">Page 33</p> <p>1 positions, where we place those positions and how we 2 adjust them.</p> <p>3 And we think we might be able to do a better 4 job in a repeat performance. However, that's still not 5 the ideal environment for the fund. We will never match 6 a 30 percent upside return in the S&P. I can tell you 7 we'll never match a 20 percent upside return in the S&P. 8 Somewhere up to maybe a 15 percent return, just a 9 ballpark guess on my part, we might have a chance to do 10 that. So over time we can match the S&P on an average 11 year to the upside. But those parabolic years, that's 12 the strategic tradeoff we've made. We've put structures 13 in place as a part of our strategy to capture a normal 14 routine S&P upside but we've removed the downside risk 15 and we think that's worth missing out some times, a year 16 like 2013; we're not hitting that 20 percent gain when 17 that's what the market's doing. But that's our constant 18 choice. We still want to get better in those years but 19 that's never going to be the best environment for the 20 fund.</p> <p>21 PARTICIPANT: Thank you for the clarification.</p> <p>22 MR. FREDERICK: All right. Thank you for that 23 question. It doesn't look like we have anything left in 24 the queue here. So one last reminder, folks, if you 25 have any last minute questions, please press star 5 to</p>	<p style="text-align: right;">Page 35</p> <p>1 any environment that doesn't drive us one way or the 2 other. In other words, even in a kind of a listless 3 choppy market, volatility is telling us yeah, go ahead 4 and put on call positions. Unfortunately those call 5 positions simply don't pay off because the market never 6 goes higher. So that's essentially what was going on in 7 Q4, to a large degree, of last year, especially in 8 November and December where the market chopped around a 9 little bit.</p> <p>10 The other thing that occurs and we may be 11 seeing some of that now, is you get a transition period. 12 So for the first two months of this year, we had 13 volatility conditions that put us into positions below 14 the market and we're fairly fully invested below the 15 market. Options are a wasting asset. They roll off the 16 table once a month. So we constantly have to replenish 17 to maintain that investment posture. So we had February 18 roll off a week or so ago and we've begun to replenish, 19 had begun to replenish some of those positions below the 20 market. So we're fairly fully invested below the 21 market.</p> <p>22 We could do more and we are doing more as 23 conditions arise but we're kind of in a replacement, 24 adjustment, maintain value mode below the market. We 25 have, we have certainly plenty of positions on to move</p>
<p style="text-align: right;">Page 34</p> <p>1 ask a question.</p> <p>2 One more popping up, area code (415)508.</p> <p>3 PARTICIPANT: Hi, guys. I was just wondering 4 what the current AUM is in the fund for the Hedged 5 Futures Fund. And then also, you know, I know towards 6 the end of last year you guys were (inaudible) 7 opportunities to add on new positions and it sounds like 8 you started to do that more recently. So how fully 9 invested would you say the fund is right now relative to 10 kind of you know a normal level or a fully invested 11 level?</p> <p>12 MR. WALCZAK: Sure. Well, the first answer is 13 we're about 2.75 billion. That's the short answer to 14 the AUM number. In terms of investment opportunities, 15 fully invested and so on, last year we ran into a 16 scenario where the market was very choppy. Volatility 17 conditions were generally in a contango situation. So it 18 wasn't even as much as opportunity, it was volatility 19 conditions putting us into upside price capture type of 20 option structures. And then not getting any upside 21 price movement. So we were able to scalp here and there 22 a little bit of temporary up movement, but basically the 23 market was just chopping sideways so there weren't a lot 24 of opportunities to actually make money.</p> <p>25 We continue in that environment. There isn't</p>	<p style="text-align: right;">Page 36</p> <p>1 the dial on the fund. But we're not at our limit in 2 terms of from a risk standpoint, we'd limit the number 3 of positions we put on. In terms of that limit we're 4 probably only at about 60 percent. But that's a normal 5 investment posture for volatility positions below the 6 market enough to move the needle in terms of several 7 hundred basis points of profit opportunity in a 8 volatility event. So above the market, so I mentioned 9 we're in a transition period and that means that 10 volatility conditions over the past week or two have 11 slipped back to a contango term structure which means 12 we're looking at call option opportunities.</p> <p>13 We've begun to put some on but we're fairly 14 light because we've only been putting those on for a 15 week or two, and we will scale into positions across 16 multiple strike prices, multiple months. Expiration 17 months.</p> <p>18 So we are fairly under-invested, really not 19 more than 10 to 15 percent of a normal investment 20 posture above the market, but we're aggressively adding 21 to that, those positions. I'll give you my personal 22 option; we're a neutral fund; we don't predict price 23 movement. But if you want my personal opinion, I don't 24 think there's a lot of opportunity to the upside.</p> <p>25 Again, we mechanically go in according to volatility</p>

<p style="text-align: right;">Page 37</p> <p>1 conditions and our normal set of rules and analytics and 2 put positions on. I don't hold a lot of hope that these 3 positions we're putting on now are going to generate a 4 lot of return for the fund, but again that's a personal 5 opinion. 6 As the fund manager, we're using our 7 analytics, our structure, our rules, we're putting them 8 on. If they pay off that's great; I just wouldn't 9 expect it this year. 10 But so relatively fully invested below the 11 fund in volatility opportunity and very lightly invested 12 above the fund. And in kind of a transition period where 13 we're beginning to put on the upside exposure and trying 14 to maintain as long as we can the volatility conditions 15 should the market roll over from here. 16 PARTICIPANT: Thank you. 17 MR. FREDERICK: All right. At this time, Ed, 18 I don't see any additional questions. Just so you folks 19 know, this call will be available for replay, for any of 20 those who, you know, would like to listen to it again. 21 If you have any questions at a later time that require 22 Zephyr Analytics, Morningstar Reports, please feel free 23 to reach out to us either at our internal desk, at 24 (646)827-2761 or you can email us at 25 info@CatalystMutalFunds.com or reach out to your</p>	<p style="text-align: right;">Page 39</p> <p>1 TRANSCRIBER'S CERTIFICATE 2 3 I, Christine Boyce, hereby certify that the foregoing 4 transcript is a complete, true and accurate 5 transcription of all matters contained on the recorded 6 proceedings in the matter of: 7 8 CATALYST HEDGED FUTURES STRATEGY FUND 9 10 2016 03.01 Open House Call (SEC2) 11 12 13 14 15 Transcriber 3-11-2021 16 17 18 19 20 21 22 23 24 25</p>
<p style="text-align: right;">Page 38</p> <p>1 regional wholesaler. It looks like the next call that 2 we have in place is March 15th at 1:00 p.m. Eastern 3 Time. And that's about it. Thank you all for joining 4 us. 5 Thanks, Ed and Kim. 6 (End of audio.) 7 * * * * * 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25</p>	